Malaysia's GDP Growth Moderated More than Expected to +4.4%yoy in 1QCY25

ECONOMIC REVIEW: Advance 1QCY25 GDP

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- GDP growth moderated more than expected. Based on advance estimate, Malaysia's GDP growth moderated further to +4.4%yoy in 1QCY25 (4QCY24: +5.0%yoy), below our and market expectations. All major sectors recorded slower growth, with mining sector contracted at sharper pace.
- GDP fell -3.7%qoq from the previous quarter. On quarter-on-quarter basis, Malaysia's GDP fell by -3.7%qoq in 1QCY25 (4QCY25: +2.7%qoq) based on data which is not seasonally adjusted. All sectors, except construction, contracted during the quarter.
- Malaysia's GDP growth to moderate to +4.0% this year. We forecast Malaysia's GDP will experience a more moderate of +4.0% this year (2024: +5.1%), driven mainly by sustained growth in the domestic spending. We foresee external trade will grow at slower pace, taking into account the expected slowdown in external demand growth particularly from the US.

GDP growth moderated more than expected. Based on advance estimate, Malaysia's GDP growth moderated further to +4.4%yoy in 1QCY25 (4QCY24: +5.0%yoy), slightly lower than our estimate (+4.5%yoy) and market consensus (+4.8%yoy). The service sector continued to grow albeit slightly slower at +5.2%yoy (4QCY24: +5.5%yoy) underpinned by growth in wholesale & retail trade, logistics & storage and information & communication services. Meanwhile, growth in the manufacturing sector eased marginally to +4.2%yoy (4QCY24: +4.4%yoy), following higher output in E&E and optical devices, oil & fats products, food processing as well as petroleum, chemical, rubber and plastic products. Meanwhile, mining & quarrying industry contracted at a sharper pace of -4.9%yoy (4QCY24: -0.9%yoy) due to reduced output of crude oil and natural gas. The agricultural sector, on the other hand, rebounded to +0.7%yoy (4QCY24: -0.5%yoy) due to higher growth in fishery and other agriculture sub-sectors, offsetting weaker palm oil production. Construction continued to contribute positive and sustained double-digit growth albeit relatively slower at +14.5%yoy (4QCY24: +20.7%yoy), supported by growth in specialized construction activities and residential sector. The moderation in GDP growth is in line with our expectations as signaled by slower IPI growth. However, the pick-up in exports and higher trade surplus in Mar-25 suggest a potential upward revision to 1QCY25 GDP as companies frontloaded production and deliveries ahead of the announcement of reciprocal tariffs by the US, which could hurt external trade outlook going forward.

Table 1: Malaysia's Real GDP Growth by Major Sectors

	Quarterly Basis (QoQ %)*				Yearly Basis (YoY %)			
	2Q24	3Q24	4Q24	1Q25[a]	2Q24	3Q24	4Q24	1Q25[a]
GDP	**0.8**	**4.6**	**2.7**	**(3.7)**	**5.9**	**5.4**	**5.0**	**4.4**
Agriculture	6.7	15.6	(11.1)	(8.0)	7.3	4.0	(0.5)	0.7
Mining & Quarrying	(9.0)	(6.5)	17.6	(4.9)	2.7	(3.9)	(0.9)	(4.9)
Manufacturing	1.8	4.3	2.1	(3.9)	4.7	5.6	4.4	4.2
Construction	3.8	8.5	(0.9)	2.5	17.3	19.9	20.7	14.5
Services	0.7	4.2	3.6	(3.3)	5.9	5.2	5.5	5.2

[a] Advance estimate * non-seasonally adjusted

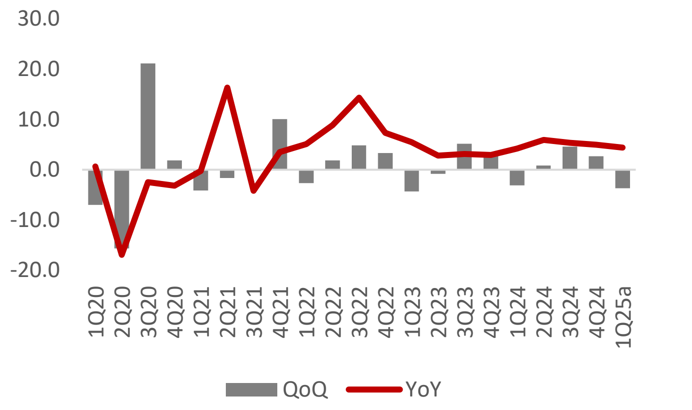
Source: DOSM, MIDFR

GDP fell -3.7%qoq from the previous quarter. On quarter-on-quarter basis, Malaysia's GDP fell by -3.7%qoq in 1QCY25 (4QCY25: +2.7%qoq) based on data which is not seasonally adjusted. All sectors, except construction, contracted during the quarter. In line with the IPI data, lower production of crude petroleum and natural gas contributed to the decline in mining GDP (-4.9%qoq), while manufacturing sector also contracted -3.9%qoq from the previous quarter, weighed down by reduced output of E&E products, computers & peripheral equipment, basic metals and even food products. Meanwhile the agricultural sector fell further by -8.0%qoq (4QCY24: -11.1%yoy), attributable to continued fall in palm oil production and lower natural rubber output. The services sector also fell -3.3%qoq as distributive trade activities were weaker than 4QCY24. Construction sector was the only sector which recorded positive quarterly growth at +2.5%qoq, rebounding from -0.9%qoq contraction in the previous quarter. We expect continued progress in the infrastructure projects will continue to support the robust in the construction sector. While we expect growing domestic demand will support growth in the services sector, we are cautious that the sequential decline in manufacturing and commodity sectors will continue if demand were to weaken in reaction to higher tariffs and the heightened trade tensions.

Domestic demand to drive growth; still positive contribution from net exports. Domestic spending continued to grow as shown by the sustained rise in retail trade (Jan-Feb 2025: +7.0%yoy; 4QCY25: +6.1%yoy) on the back of healthy labour market, with increased employment and more people entering the job market. Meanwhile, investment activities are likely to continue to grow during the quarter, given the sustained growth in the construction sector. On another note, we expect positive contribution from the net exports will also support growth in 1QCY25 as the surplus in the trade of goods widened to +RM41b during the quarter or +20.1%yoy higher than +RM34.1b in 1QCY25. In other words, net exports continued to be positive contributor to GDP growth as goods exports growth (+4.4%yoy) outpaced import growth (+2.8%yoy) during the quarter.

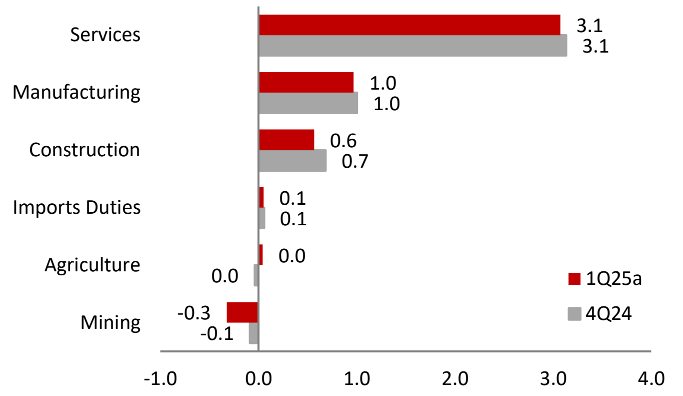
Malaysia's GDP growth to moderate to +4.0% this year. We forecast Malaysia's GDP will experience a more moderate of +4.0% this year (2024: +5.1%), driven by sustained growth in the domestic spending. Our latest projection also assumed the external trade will grow at a slower pace, considering the expected slowdown in demand growth from major markets like the US following the tariff hikes announced by the US government. We opine Malaysia can still sustain growth even if the intensified trade tensions will further hurt external trade outlook as we expect domestic consumption will continue to grow on the back of positive labour market conditions, rising income, continued cash assistance programme from the government and increased tourist spending. However, we do not rule out that policy uncertainties and weaker external demand would further constrain activities in the export-oriented sectors, which could affect growth in selected sectors such as manufacturing, mining and agriculture sectors, in the coming quarters.

Chart 1: Real GDP: Year-on-Year vs. Quarter-on-Quarter (%)



ª Advance estimate
Source: Macrobond, MIDFR

Chart 2: Contribution to 1QCY25 GDP Growth by Major Sector (%-point)

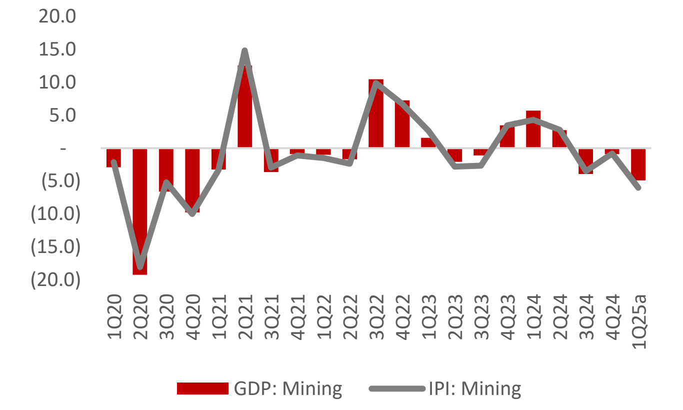


ª Advance estimate
Source: Macrobond, MIDFR

Chart 3: Manufacturing GDP vs Manufacturing IPI (YoY%)

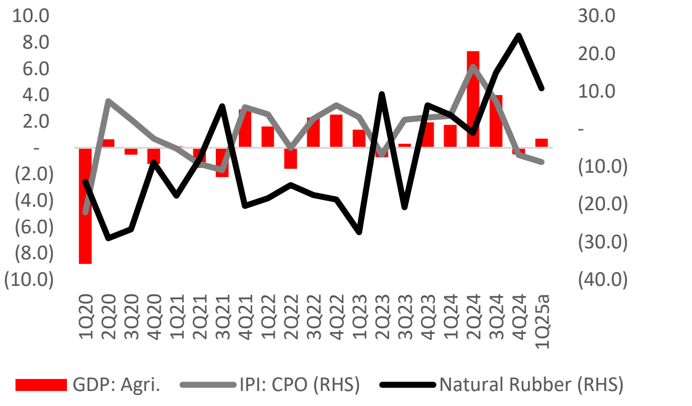
ª Advance estimate
Source: Macrobond, MIDFR

Chart 4: Mining GDP vs Mining IPI (YoY%)



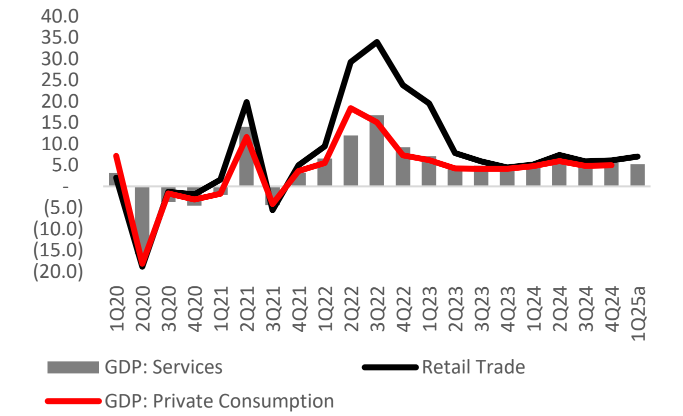
ª Advance estimate
Source: Macrobond, MIDFR

Chart 5: Agriculture GDP vs CPO IPI vs Natural Rubber Output (YoY%)



ª Advance estimate
Source: Macrobond, MIDFR

Chart 6: Services GDP vs Private Consumption vs Retail Trade (YoY%)



ª Advance estimate
Source: Macrobond, MIDFR

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